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A REVIEW OF BUSINESS CONDITIONS
Confidential

Agricultural-Industrial Relations Section
A.A.A.

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Non-Farm Income

National income, exclusive of agricultural income, was higher in March than for any month since the third quarter of 1931, according to preliminary estimates. The March index of non-farm income is tentatively placed at 81.6 percent of the 1924-9 average. This compares with the previous recovery peak of 79.9, reached last December, and is 23.4 points--40 percent--above the depression low recorded just three years earlier.

Though this seasonally corrected index is based on income estimates adjusted, where necessary, for the number of working days in each month, no attempt was made in March to allow for the loss of labor income occasioned by temporary suspension of operations on account of floods. The floods were not a factor in the week used by the Bureau of Labor Statistics in its report on employment and payrolls. A rough indication of the probable loss of labor and entrepreneural income may be had from the contraction in industrial production and in general business, as reported by the United States Department of Commerce and the New York Times Annalist respectively, for the week when the flood was at its worst. On this basis it appears that labor income for March may have been about two percent lower than estimated and total non-farm national income $1\frac{1}{2}$ percent less. An adjustment of this size would still leave estimated March income of the non-farm population at the highest point since October 1931.

As compared with the September 1929 to March 1933 drop of 51.2 points (from 109.4 to 58.2) in non-farm national income, recovery to March 1936 amounts to about 46 percent. The decline covered a period of $3\frac{1}{2}$ years whereas improvement has now been under way for three years. Further gains are in immediate prospect. A sharp reversal in productive activity followed the December 1935 to March 1936 recession. According to the confidential weekly index of the Department of Commerce, production rose 16 percent during the four-week period from March 21st to April 18th. It probably averaged above 101 (1923-5=100) for April. Since the monthly average of this weekly index has not, during the past nine months, varied more than two points from the monthly production index reported by the Federal Reserve Board, it is probable that the latter rose to around 100 for April. It stood at 94 in both February and March after having receded from the recovery high of 104 in December.

Renewed improvement in industrial production and in non-farm national income will further stimulate the domestic demand for farm products.

Per Capita Buying Power of Urban Population

The per capita income of employed factory workers was sufficient during each of the past five years to buy an average of 107.0 to 109.4 percent as much food as during the 1924-9 period. And in March 1936 the purchasing power of employed factory workers, in terms of retail food prices, was 111.9 percent of the 1924-9 average --the highest for any month in 5 years. Obviously then, the rise in farm prices, as reflected in higher food costs, has not been burdensome to the employed urban worker. In fact, food prices are still lower compared with prices during the 1924-9 prosperity period than are other living costs. This is illustrated in the following tabulation as well as by an attached chart.

Per Capita Purchasing Power
In Terms of Food and Other Living Costs
1924-9=100

	In Terms of Food		In Terms of Other Living Costs	
	Factory Payrolls	Non-Farm Nat'l. Income	Factory Payrolls	Non-Farm Nat'l. Income
1929	101.1	101.7	103.5	104.1
1932	107.0	95.1	81.6	72.6
1935	107.9	89.1	102.1	84.3
March:				
1935	106.4	89.6	99.6	93.9
1936	111.9	98.2	104.3	91.5

Not only does the employed factory worker have sufficient income for a 7 percent higher standard of living than during the 1924-9 period, but the average income of all the non-farm population in terms of total living costs is down only 6 percent. These percentages apply to total living costs of which about 1/3 is food and 2/3 other items.

With purchasing power of the non-farm population only moderately below that of the 1924-9 period and improving, the domestic demand outlook gives considerable cause for satisfaction. The favorable trend of non-farm income is reflected in a correspondingly strong upward tendency in urban trade as will be noted by reference to an accompanying chart showing quarterly department store sales and non-farm national income.

Farm Income and Demand

Though farm cash income is holding above last year and prospects favor continued year-to-year gains, at least through the first half of

1936, there was some recession, after seasonal correction, from the final quarter of 1935 to the first quarter of 1936. It is interesting to note that seasonally corrected rural retail sales were also down. Thus the quarterly trend of both income and of sales was down in rural areas and up in urban areas. (See attached chart). With the decline in farm prices arrested during the first half of March, and benefit payments resumed, recovery in farm income and in rural retail trade has again made an appearance.

The temporary let-down in farm demand during the first quarter of 1936 was also reflected in employment in farm implement factories where some recession occurred. (See accompanying chart). The farm implement industry is one by which the relation of industry and agriculture can be measured with some degree of accuracy. Except for tractors, which are used by industry and for roadbuilding purposes, as well as by farmers, the products manufactured by farm implement companies are used almost exclusively by farmers. The tonnage of tractors originated on the ClassI railroads of the country constituted from 35 to 39 percent of total tonnage of agricultural implements and tractors during the 1932-35 period. Thus an index of tonnage volume with tractors differs but slightly from one exclusive of tractors.

Index of Tonnage and Value of Farm Implement Shipments
1932=100

	Volume			Value
	Excluding Tractors	Including Tractors	Price Index	(Including Tractors)
1929	761	696	115	800
1932	100	100	100	100
1933	119	116	98	114
1934	208	209	106	222
1935	325	341	110	375
Quarters (Seasonally Adjusted):				
1933 (1st quarter)*		65	98	64
1935 (4th quarter)		428	111	475

* Depression low.

Here is direct evidence of the interrelation of industry and agriculture. Farm machinery manufacturers apparently enjoyed an increase of about 275 percent in dollar volume from 1932 to 1935. During the period cash farm income, remaining after wages, interest and taxes, doubled. Improvement from the extreme low quarter of implement shipments (January-March, 1933) to the last quarter of 1935 amounted to an estimated 642 percent. Six agricultural implement manufacturing companies reported aggregate deficits of $22,600,000 in 1932 and net profits of $26,100,000 in 1935, according to the New York Federal Reserve Bank.

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Recovery in rural sales of general merchandise is well in excess of recovery in department store sales (representative of urban trade) according to United States Department of Commerce and Federal Reserve Board reports. Similarly, registrations of new automobiles suggest stronger than average revival in rural buying. Both of the large mail order houses recently reported new record monthly sales whereas net profits of eleven auto companies amounted to $199,900,000 last year as compared with losses totaling $23,100,000 in 1932.

It is apparent that industry has benefited greatly by the revival in rural buying while, as previously shown, improvement in farm prices (necessary to rural revival) constitutes no burden on employed factory workers whose buying power continues well in excess of that of the 1924-9 period. Though lower prices would be of direct benefit to the individual who has no job his chances of finding work would be greatly reduced through an increase in total unemployment. Certainly the urban worker has a big interest in the welfare of the farmer, who constitutes over one-quarter of the consumers of factory products; an interest second only to that of the farmer in the welfare of the urban worker on whom he largely depends for a market.

Productive Revival and Corporate Profits

Business has reached a point where further improvement adds greatly to the net profits of corporations. A large volume of business (estimated at about 40 percent of capacity for steel) is required for industry to pay overhead; and only after this business is secured can profits be made. Obviously, after the break-even point is reached, further gains in volume result in net profits out of all proportion to the additional gain in business. That industry has already reached this point, (where further gains in volume are reflected in far greater percentage increases in profits) may be illustrated by some first quarter reports, keeping in mind, of course, that industrial production was only 6.7 percent above the corresponding quarter of 1935.

Per Share Net Profits, First Quarter

	1935	1936	Pct. Gain
General Motors	$0.68	$1.17	72
du Pont	0.85	1.21	42
Chrysler	2.12	2.65	25
Union Carbide	0.59	0.83	41
Corn Products	0.67	0.98	46
National Biscuit	0.22	0.39	77
General Electric	0.19	0.25	32
Air Reduction	1.50	1.70	13

These companies are all numbered among the leaders in their

fields. Thus any large increase in proportion of total business done is unlikely, so that increases in profits must come largely through general improvement in their respective industries. United States automobile production was only slightly (2%) above the first quarter of 1935 but profits of the two largest publicly owned companies were up substantially more than this.

With per capita purchasing power of the non-farm population now only 6 percent under the average of the 1924-9 period and further improvement in the immediate offing, and with farm income and buying power still on the increase, corporate profits should continue to improve. This should prove an effective cushion to stock prices, which are currently undergoing the first reaction of consequence in more than a year. Though it is recognized that stock prices often anticipate changes in the direction of business, current price weakness appears to be based on other considerations. Prospects are definitely favorable to further near-term business improvement.

Business Outlook

The attached chart on factory employment in industries producing durable and non-durable goods shows that both groups contributed very substantially to the initial advance in business which followed the banking crisis early in 1933, but that employment in non-durable goods industries has since fluctuated around a horizontal line whereas a definite upward trend has continued in the durable industries. This tendency of the durable industries to "catch up" has resulted in an increase in the ratio of numbers employed in such industries to total factory employment from around 39 percent in late 1932 and early 1933 to over 48 percent in recent months.

During the 1923-9 period durable goods employment accounted for an average of 51 percent of the total. Full recovery to the pre-depression relationship, without any further increase in the non-durable industries, would require the addition of over 300,000 more workers in durable lines--equal to about 23 percent of the March 1933 to March 1936 increase. It is apparent then that, over the longer-term, continued improvement is primarily dependent on the heavy industries--those manufacturing products of a durable and semi-durable nature such as building materials, industrial and railroad equipment, and automobiles. Such improvement in the heavy manufacturing industries would necessarily be predicated on increased activity in the industries using durable products. Probably construction, more than any other industry, holds the key to the longer-term future of general business.

Recovery for the construction industry has been slow to date though for each of the past 10 months substantial year-to-year gains have been recorded.

Construction Contracts in 37 Eastern States (F.W. Dodge)
(Million Dollars)

	Total	Residential	Non-Residential	Public Works	Public Utilities
1928 (High)*	6,628	2,788	2,375	980	484
1933 (Low)*	1,256	249	405	500	103
1934	1,543	249	543	625	126
1935	1,845	479	676	579	112
1st Quarter:					
1935	298	71	108	99	19
1936	546	124	235	139	48

* For total but not for all individual groups.

The gain of 47 percent from 1933 to 1935, in total construction, still left a deficiency of 72 percent as compared with the 1928 pre-depression high. Should the entire year 1936 show the 83 percent improvement of the first quarter construction would still total only 51 percent of 1928. Chances seem to favor such improvement through the current quarter at least. All groups are sharing in the gain and some projects which would have otherwise reached the contract stage in March were no doubt delayed by floods. These will help to swell second quarter contracts and flood reconstruction will also add to the total for a time.

At mid-year some stimulation to home building may accompany payment of the bonus. According to an American Legion questionnaire, 13 percent of the bonus will be used in building and repairing homes. Based on the entire two billion dollars in bonus bonds, this would mean 260 million dollars for homes--an amount in excess of total residential construction in the 37 states east of the Rockies in 1933 or 1934. The 13 percent may, of course, be too high; also, some of the bonds will be held by veterans. But those who build will no doubt borrow more, in the aggregate, than the amount of bonus money they use for this purpose.

Non-residential types of building showed a sharp advance late last year. This improvement carried over into 1936, and with industrial production again expanding at an unusually rapid rate (see chart attached), prospects would seem to favor continued year-to-year gains for an indefinite period. Similarly, public utility construction is now showing definite signs of revival. Utility construction had lagged owing to fear of government regulation and competition, but with electric output reaching new all-time peaks, the need for expansion of facilities in line with growing demand is constantly becoming more urgent.

Public works construction has declined considerably since the last quarter of 1935 and, according to present plans of emphasizing Works Progress Administration work relief, there is little reason to anticipate an early reversal in this situation.

On balance the immediate building outlook is favorable. This has double significance owing to the relatively poor employment conditions which have persisted both in construction and in industries manufacturing construction materials.

The Price Situation

Though wholesale prices of farm products had a substantial rally during the first three weeks of April in line with strength in livestock items, also in grains owing to draught fears, some reaction has since occurred. It is probable that farm prices will undergo some downward adjustment unless prospects for larger crops this year do not materialize. However, strengthened urban buying power, induced by expanding income and no further increase in living costs, should result in a sufficient gain in domestic demand to assure maintenance of prices at the farm sufficiently high to permit continued year-to-year gains in cash income from sales. Benefit payments have been resumed and should exceed last year for the rest of 1936.

The decline in retail food prices, evident since December of last year (see Cost of Living chart) continued up to the latest reporting date, having receded from 79.5 for the week of March 10th to 78.9 in the April 7th week. The principal losses were of a seasonal nature (eggs and dairy products) though cereals declined fractionally. The composite index of food prices for the latest week was 2.8 percent lower than a year earlier. Some advance may have occurred in the following two weeks.

So long as farm prices remain at levels permitting further gains in farm cash income and yet food prices are not sufficiently high to act as a drag-down influence on urban purchasing power, a favorable situation may be said to exist. Such balance now exists and prospects appear conducive to its continuation.

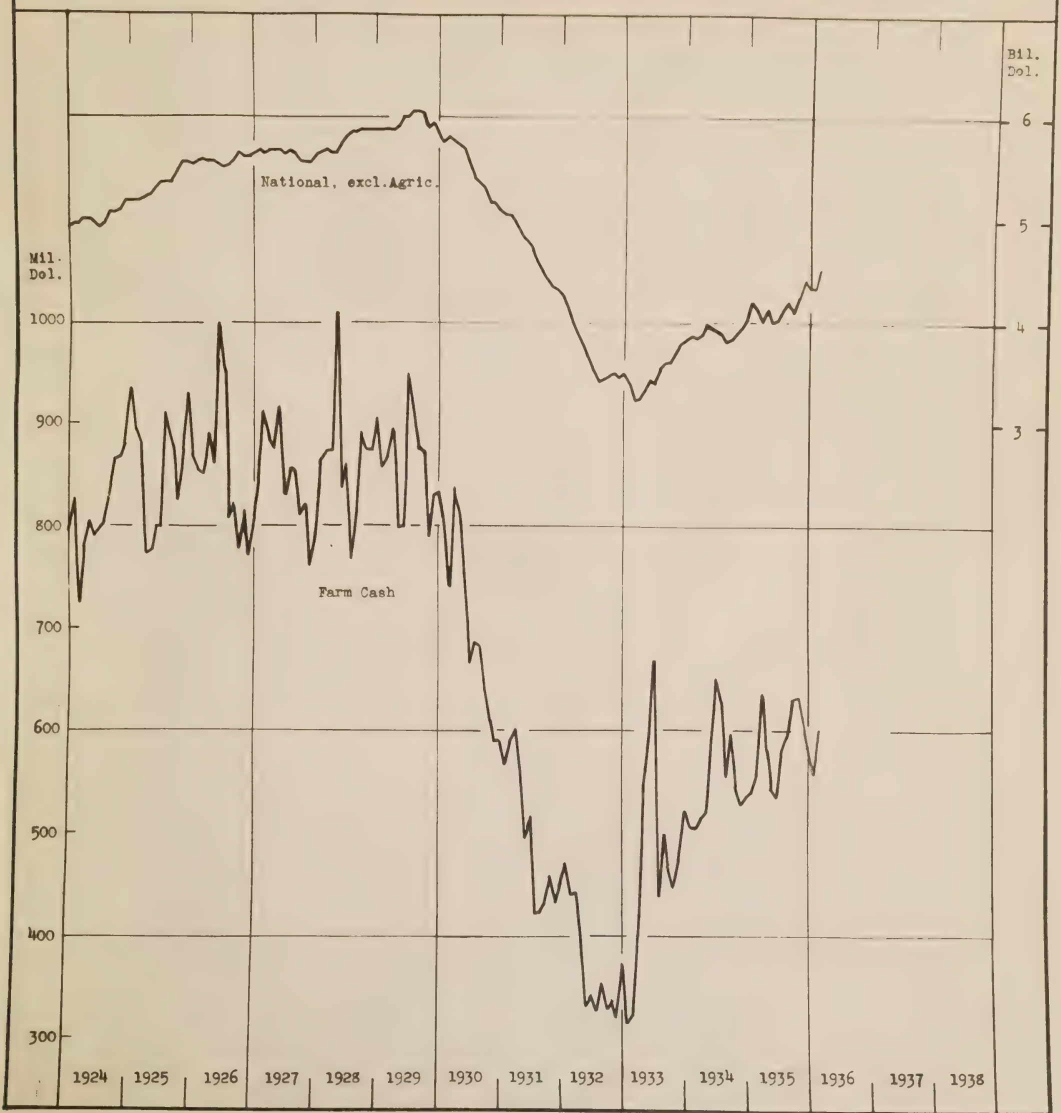
B U S I N E S S   I N D I C A T O R S

	Key	March 1936 P.	Feb. 1936 (r)	March 1935	March 1933	March 1929
Farm Income (with benefits) (1)	a	$ 602	$ 558	$ 558	$ 324	$ 870
Urban Income (with Relief) (1)	a	$ 4,523	$ 4,351	$4,124	$3,231	$5,887
Industrial Activity F.R.B. (1)	b	[illegible]	94	88	59	118
Department Store Sales (1)	c	79	72	74	51	101
Rural Retail Sales (1)	c	85	75	78	38	112
Motor Vehicle Output (Units) (U.S. & Canada)	d	443	304	452	122	626
New Passenger Car Registrations (Units)	d	177(3)	216(4)	171(3)	69(3)	235(3)
Dollar Sales, New Passenger Autos (1)	c	70	62	66	21	107
Steel Ingot Production (tons)	d	3,346	2,968	2,868	898	5,068
Building Contracts ([illegible])	a	$ 199	$ 142	$ 123	$ 60	$ 485
Railway Carloadings (2)	d	605	616	602	460	962
Electric Power Production (K.W. Hr.) (2)	a	1,881	1,937	1,725	1,400	1,688
Wholesale Prices, All Commodities	f	116.3	117.7	115.9	87.9	140.3
Wholesale Prices, Farm	f	107.3	111.5	109.8	60.6	150.4
Wholesale Prices, Food	f	124.1	129.0	12[illegible].9	84.7	152.4
Wholesale Prices, Non-Agri.	f	118.2	118.9	117.1	94.0	138.2
Prices Paid by Farmers	f	121(5)	121(6)	127(5)	101(5)	154(5)
Prices Rec'd. by Farmers	f	105(5)	104(6)	111(5)	58(5)	144(5)
Urban Cost of Living	g	140.4	140.9	140.4	127.[illegible]	172.2
U.S. Unemployment, Trade Unions, (A.F. of L.)	[illegible]	196	203	236	324	104
U.S. Employment, Mfg. Industries, (B.L.S.)	c	80.3	79.4	78.7	56.1	99.3
U.S. Exports	a	$ 195	$ 182	$ 185	$ 108	$ 490
U.S. Imports	a	$ 200	$ 193	$ 177	$ 95	$ 411

P - Preliminary
(r) revised
(1) Adjusted for seasonal variation
(2) Four weeks' average
(3) February
(4) January
(5) April
(6) March

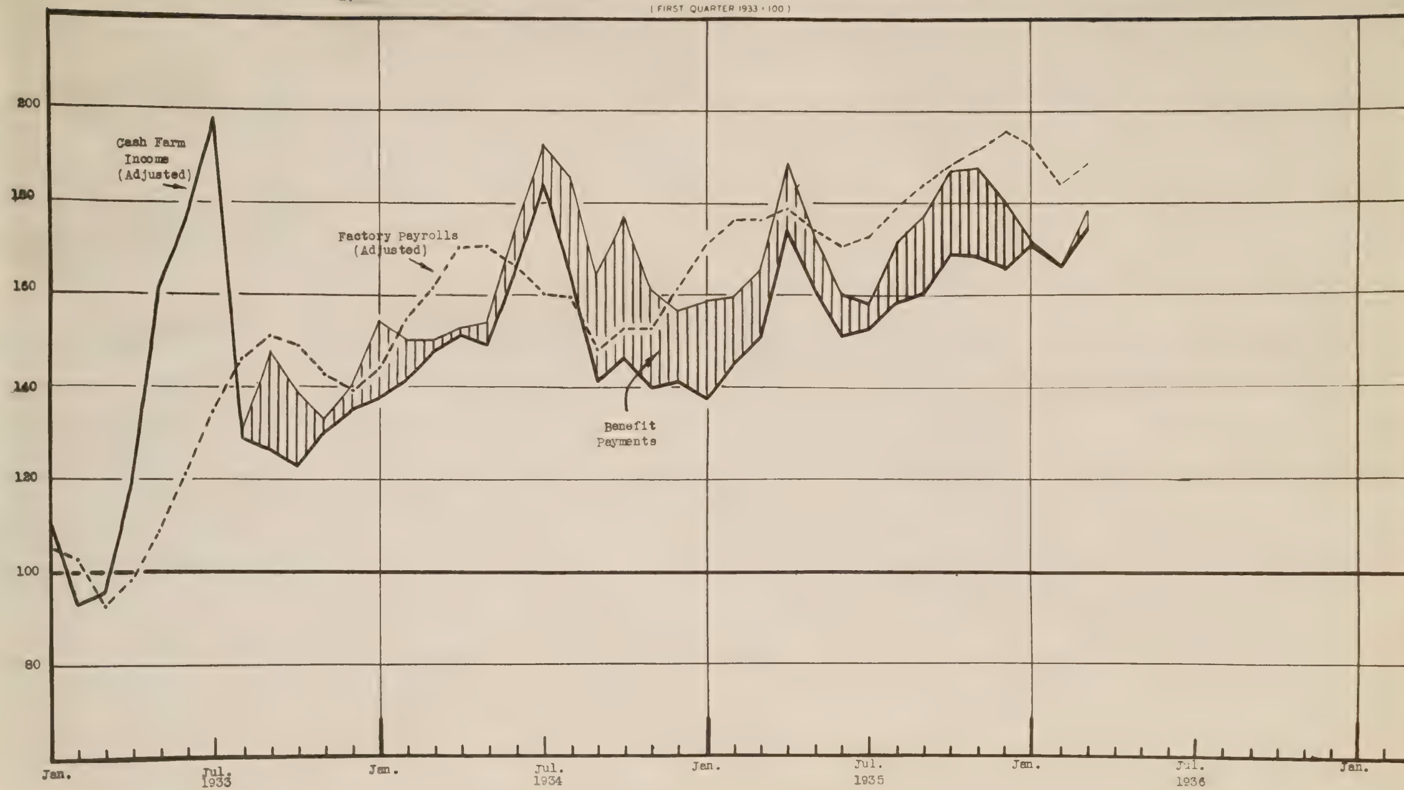
KEY:
a - in millions
b - 1923-5=100
c - 1929=100
d - in thousands
f - 1910-14=100
g - 1913=100

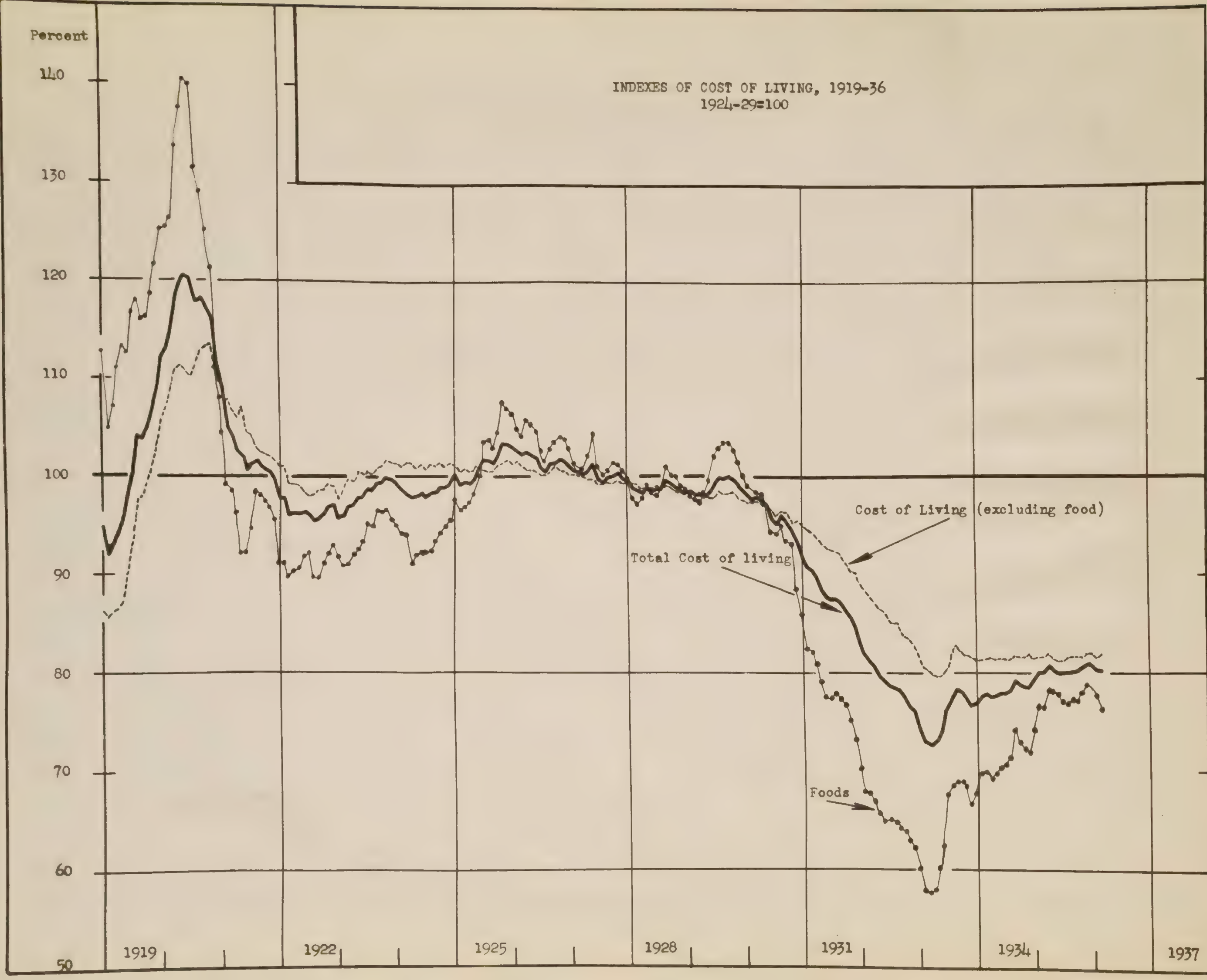
NATIONAL INCOME, EXCLUSIVE OF AGRICULTURAL AND FARM CASH INCOME, 1924 TO DATE
(Dollar figures seasonally corrected)



FARM INCOME AND FACTORY PAYROLLS SINCE JANUARY 1933

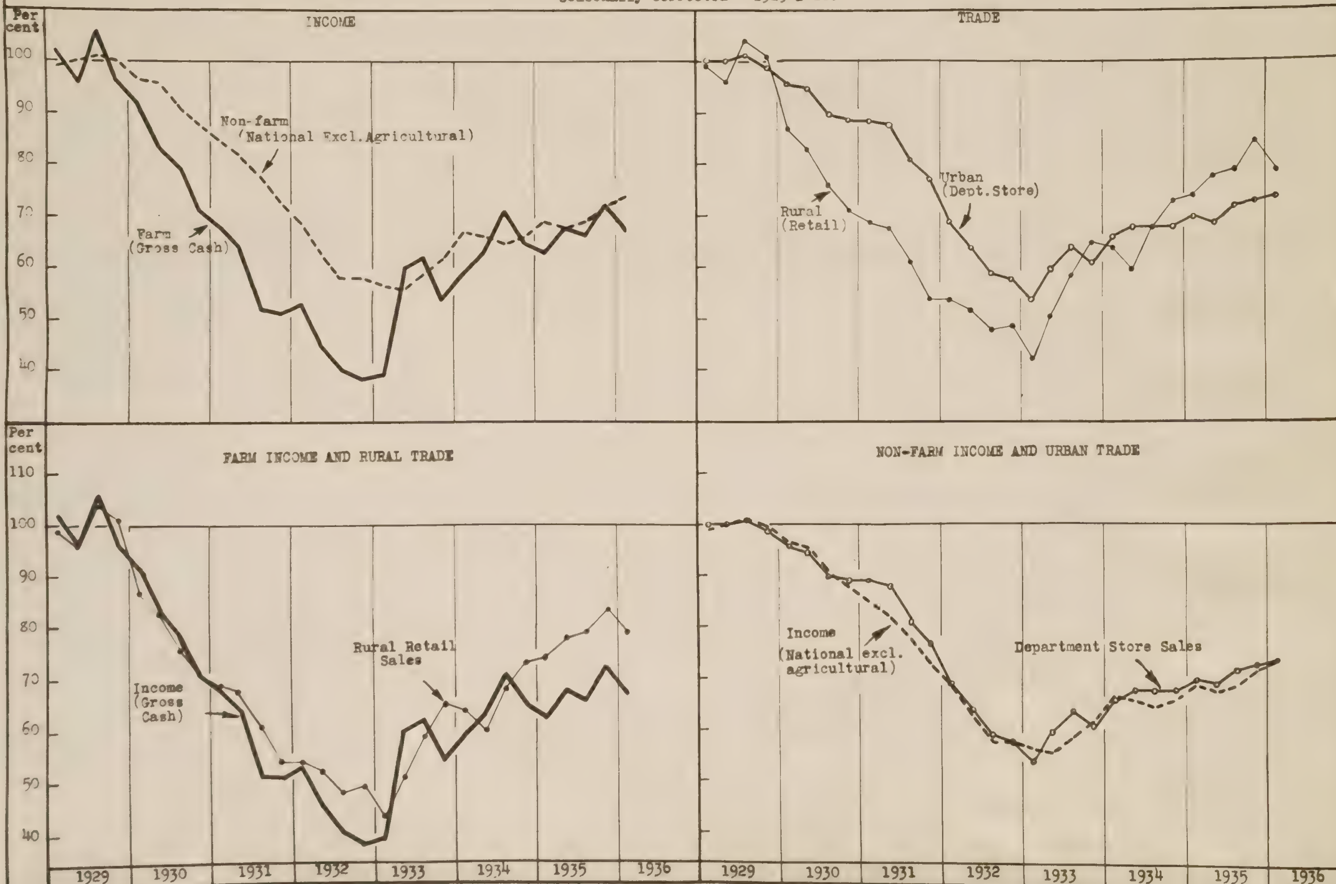
(FIRST QUARTER 1933 = 100)




INDEXES OF COST OF LIVING, 1919-36
1924-29=100
Percent
140
130
120
110
100
90
80
70
60
50
1919
1922
1925
1928
1931
1934
1937
Cost of Living (excluding food)
Total Cost of living
Foods

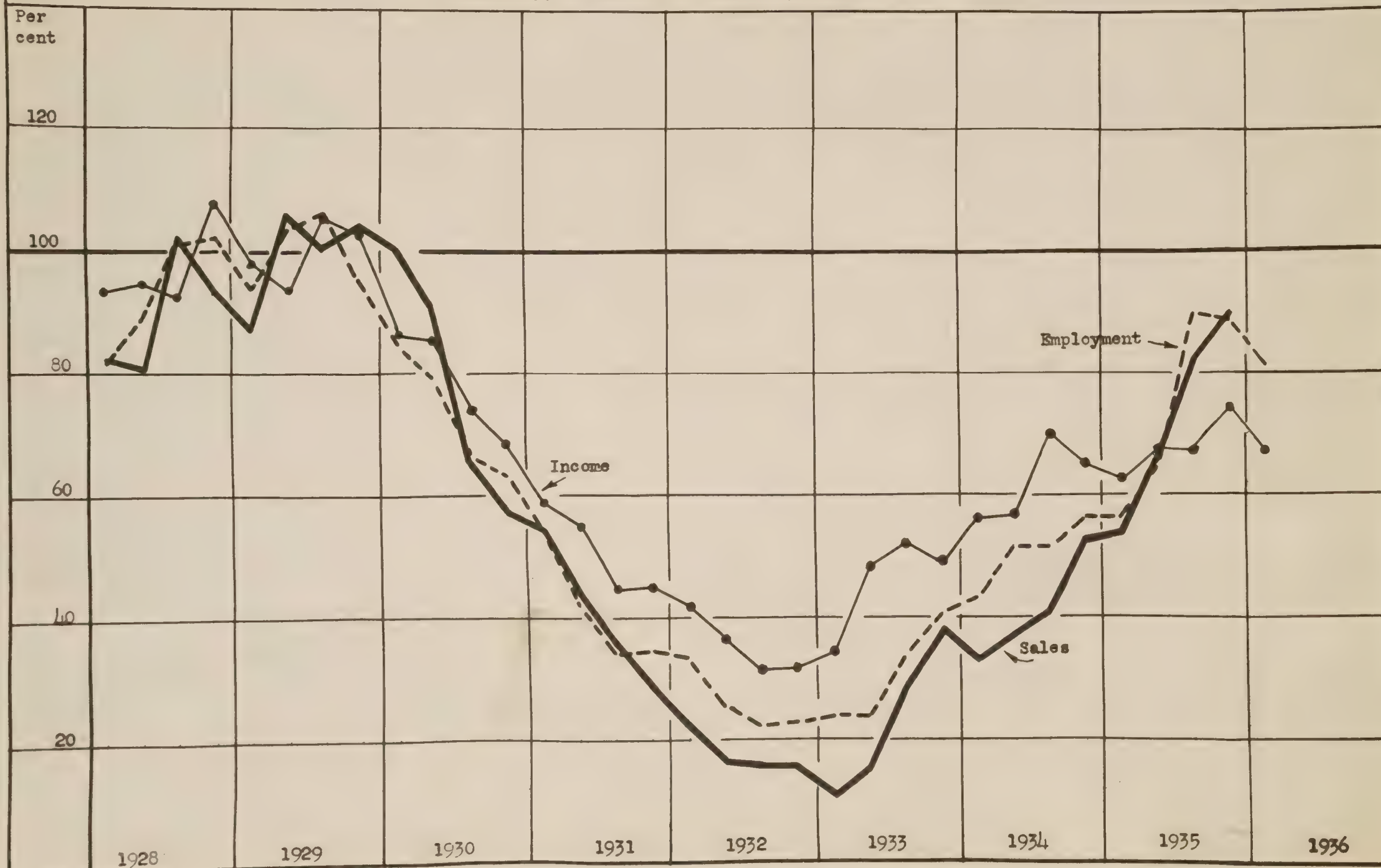
INCOME AND TRADE

Indexes of Farm and Non-farm Income, Rural Retail Sales and Department Store Sales, Quarterly
1929 to 1935
Seasonally corrected - 1929 = 100



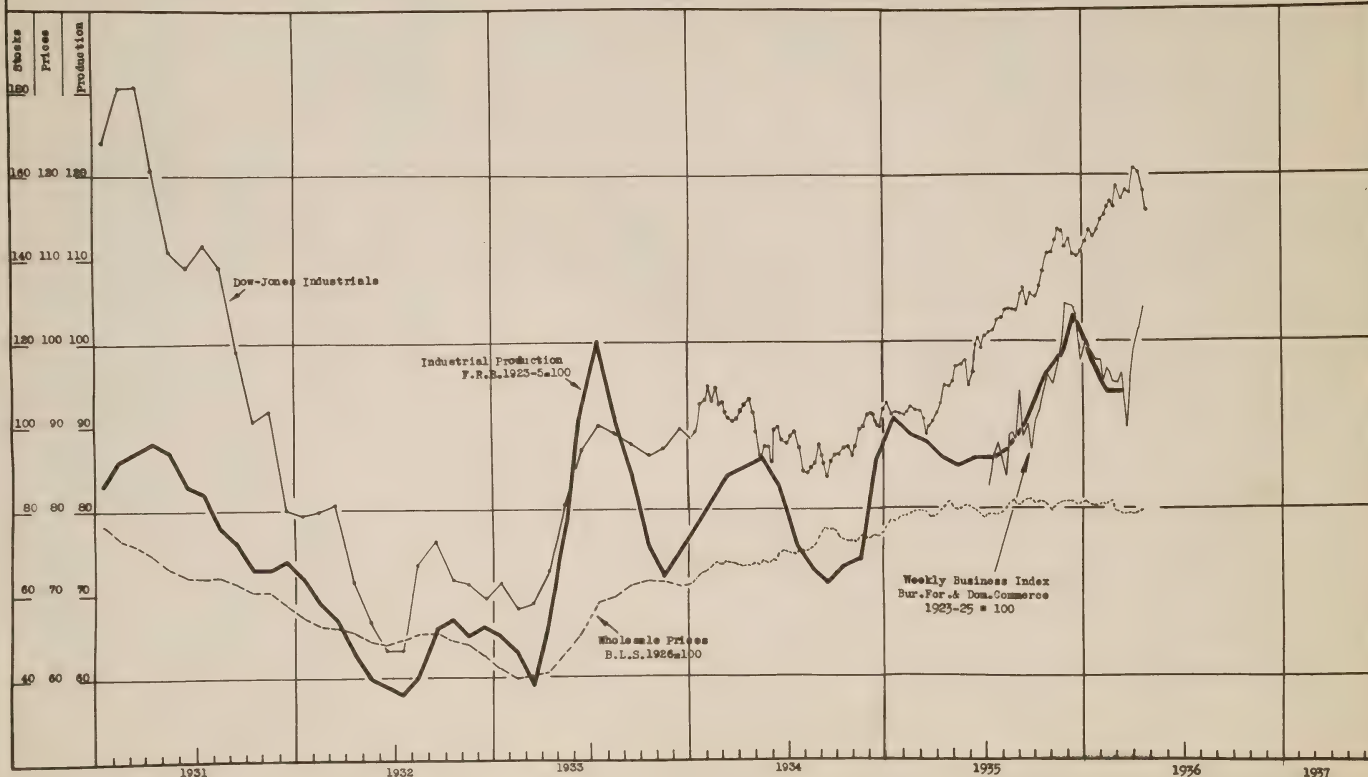
FARM CASH INCOME, excluding taxes, interest and wages, EMPLOYMENT IN FARM MACHINERY PLANTS AND VALUE OF DOMESTIC MACHINERY SALES, 1929 TO DATE

(Quarterly, corrected for seasonal, 1929=100)

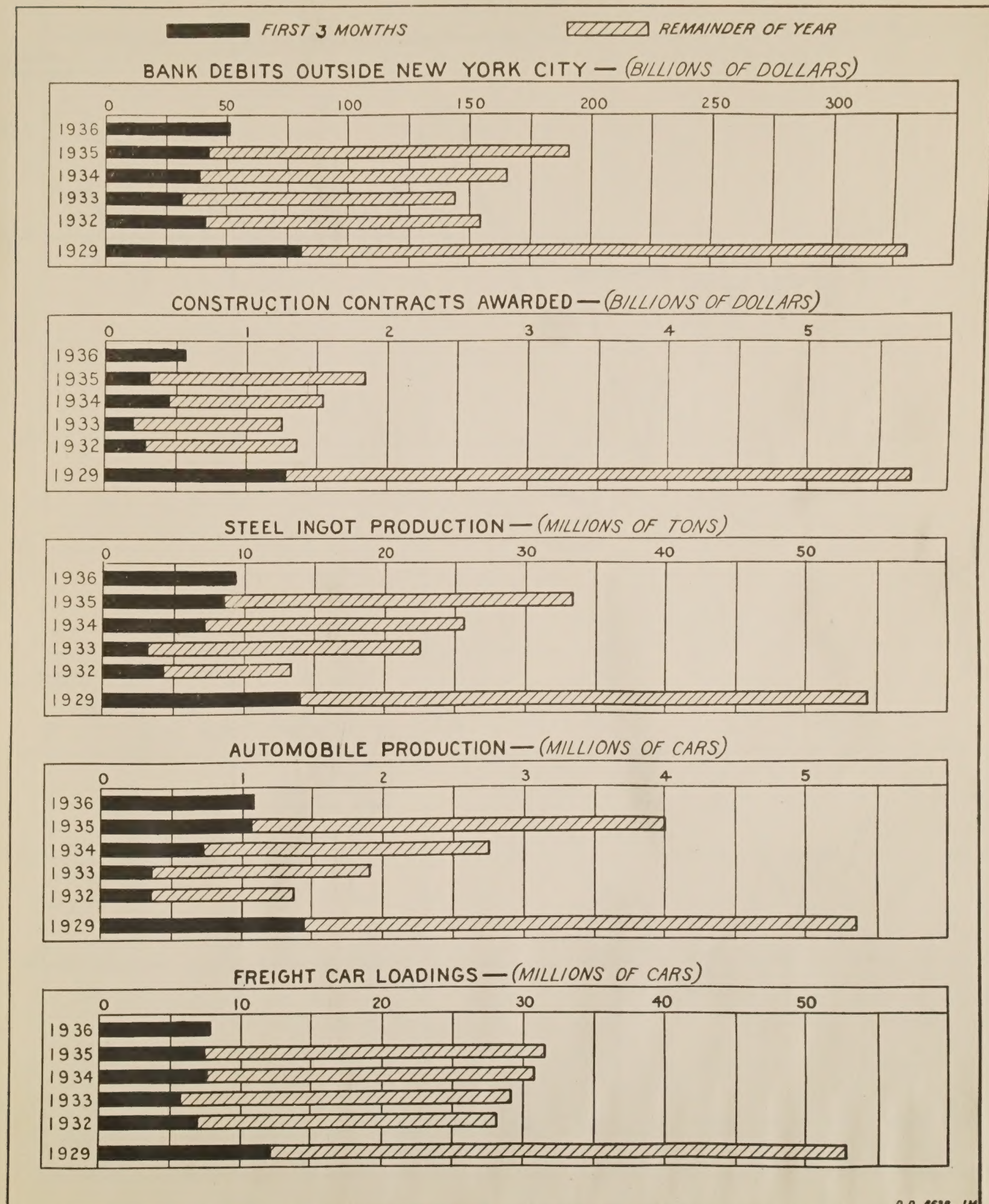


PRODUCTION AND PRICES

(Industrial Production, Stock and Commodity Prices)



Business Situation Summarized




FACTORY EMPLOYMENT IN INDUSTRIES PRODUCING DURABLE AND NON-DURABLE GOODS, 1923 TO DATE
Million Employed
4.5
4.0
3.5
3.0
2.5
2.0
Non-durable
Durable
Per cent
50
45
40
35
Ratio Durable Group to Total
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937